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Date: 6/28/2011
GAIN Report Number: IN1158

India

Post: New Delhi

Cotton Update - July 2011

Report Categories:
Cotton and Products

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Report Highlights:
On June 9, 2011, the Government of India Ministry of Commerce and Industry announced an additional export quota of 0.8 million bales (1.0 million Indian bales of 170 kg) for the Indian cotton marketing year 2010/11 (October/September). Cotton exports for MY 2010/11 are estimated at 5.1 million bales, while MY 2011/12 exports are forecast to reach 5.6 million bales.

General Information:

Government Announces Additional 2010/11 Cotton Export Quota

In recent months, Indian domestic cotton prices have been on a downward trend due to a slowdown in domestic cotton consumption. Growing concerns on the need to stabilize cotton prices triggered government action to release an additional cotton export quota for the Indian cotton marketing year (IMY) 2010/11 (October/September). On June 9, 2011, the Government of India (GOI) Ministry of Commerce and Industry increased the export quota ceiling for IMY 2010/11 to 5.1 million bales (6.5 million Indian bales of 170 kg) from the earlier established export quota of 4.3 million bales (5.5 million Indian bales). Subsequently, on June 17, 2011, the GOI announced the conditions and modalities for registration of contracts for the additional 0.8 million bales quota (1.0 million Indian bales) with the Directorate General of Foreign Trade (DGFT), Ministry of Commerce and Industry.
The main features for the allocation of the new quota are:

- In continuation with the existing policy, the DGFT will make additional registration and allocation 0.8 million bales (1.0 million Indian bales) export quota.
- The exporters have to send their application for grant of registration certificate for export of cotton from June 20th to June 25, 2011 (Close of Business).
- The conditions for allocation of the registration certificates have been made more stringent to discourage non-serious export registration.
- DGFT will make the declaration of allocation by June 6, 2011.
- The process of submission of documents, scrutiny & issue of registration certificate will be done from July 7 to July 15, 2011.
- The validity period for exports is until September 15, 2011. The failure to export the allocated quantity within the stipulated time will result in a financial penalty, and exclude companies from further allocations.

Given that the Indian cotton is still cheap relative to international prices, market sources report that the additional export quota will be fully shipped. Assuming everything proceeds according to the proposed government timeline, exporters will begin receiving the Export Authorization Registration Certificates (EARC) from the DGFT on July 18, 2011, and the physical shipment of the allocated/registered quota will most likely begin by later part of the week. With the extended shipment deadline (September 15, 2011), industry sources expect that the major portion of the additional export quota will be physically shipped in the month of August.

Exports

In light of the GOI announcement, marketing year (MY) 2010/11 (August/July) exports are estimated at 5.1 million bales (up from the earlier estimate of 4.8 million bales- see Cotton Annual 2011 IN1131). Only 300,000 bales are expected to be physically shipped by end of July 2011. The remaining 500,000 bales of the export quota allocation will likely carry over to MY 2011/12.
MY 2011/12 exports are expected to reach 5.6 million bales. A forecast of a record 2011/12 cotton crop, coupled with the slowdown in domestic cotton consumption, may prompt the GOI to announce a more relaxed export policy for the forthcoming marketing year. Given ample domestic supplies, the

GOI may at least announce that the ICY 2011/12 export quota at the current year level of 5.1 million bales (6.5 million Indian bales). As a result, MY 2011/12 exports are forecast to reach 5.6 million bales, including the expected carry-over from the ICY 2010/11 quota allocation.

MY 2010/11 Production

Based on the latest market arrival estimates, MY 2010/11 production is estimated at 24.5 million bales. The total market arrival of cotton through June 26 is estimated at 23.8 million bales compared to 22.7 million bales during the same period last year. Relatively strong end season daily market arrivals (19,500 per day vs. 8,000 bales per day last year), coupled with expected higher new crop arrival in September, should take the MY 2010/11 production to 24.5 million bales.

MY 2011/12 Planted Area

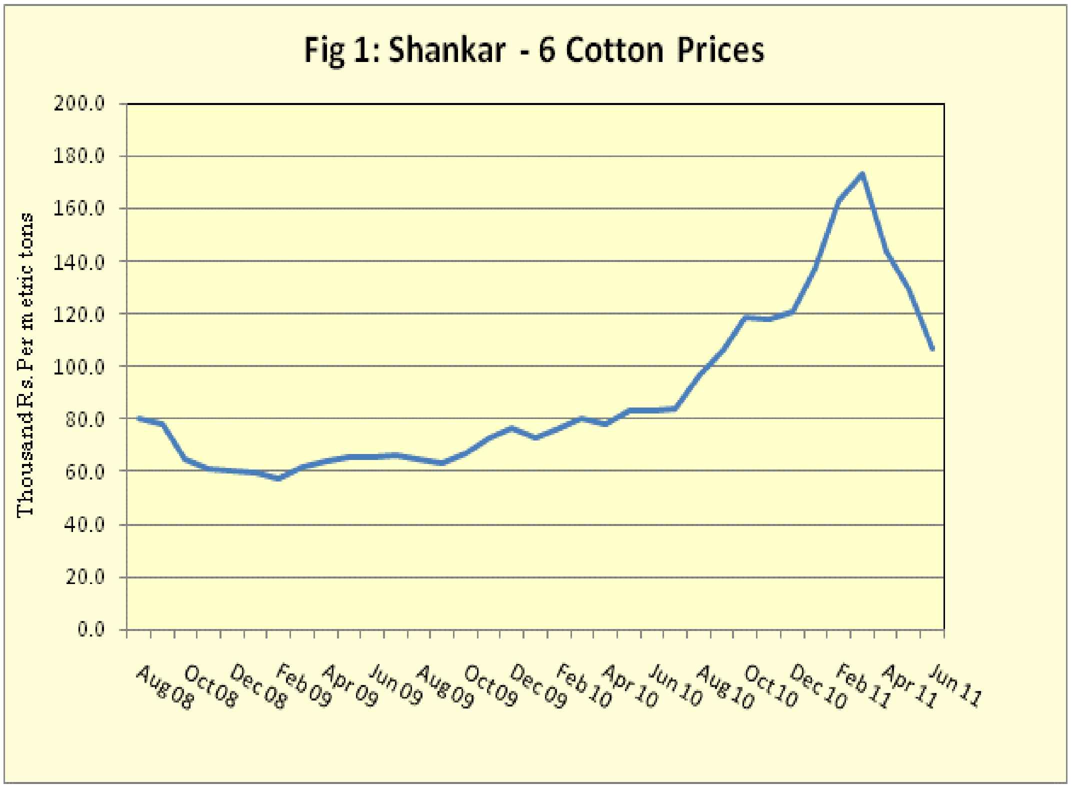
The Ministry of Agriculture initial planting report indicates that cotton area through June 16, 2011 was 2.17 million hectares, nearly 40 percent higher than last year. Most of the cotton planting is the irrigated cotton growing areas of north India (Punjab, Haryana and Rajasthan) and some parts of Gujarat. Cotton planting in other areas will take place during July-August. Assuming normal 2011 monsoon and weather condition, Post's continues to forecast MY 2011/12 cotton production at 27.3 million bales from an area of 12.5 million hectares.

Consumption Slowdown

According to latest market information and official estimates, MY 2010/11 consumption will reach 20.7 million bales. While the official monthly consumption figures (see Table 3) for the first eight months of the MY indicate 12 percent growth over last year, the monthly data reveal a slowdown from January 2011 onwards. Although official figures are not available, industry sources report a strong slowdown from April 2011 onwards due to weakening demand for cotton yarn (both domestic and exports). The domestic textile industry has also been adversely impacted by high cotton prices and by rising capital costs (India's central bank continues to increase interest rates to curb inflationary pressure), wage bills, energy and transportation costs. As a result, MY 2010/11 consumption is expected to slow considerably during the last four remaining months of the marketing year. For the same reasons, MY 2011/12 consumption is forecast to reach 21.5 million bales (lower than the earlier estimate of 22.6 million bales - see Cotton Annual 2011 IN1131).
Based on the latest official monthly consumption estimates (see Table 3), MY 2009/10 consumption has been adjusted to 19.9 million bales.

Prices Decelerate

After attaining peak levels in March 2011, domestic cotton prices have been on a downward trend due to weak demand for cotton yarn, in both domestic and export markets.



Despite the additional export quota, domestic prices have continued to decelerate in June, with the prices of most common varieties currently at about 22 to 42 percent lower than the peak in March 2011 (see Table 2). Market prices are expected to remain soft during July/August and may fall further with the arrival of a new 'bumper' crop in September.

Production, Supply and Demand Data Statistics :

Table 1: Commodity, Cotton (480 lb bales), PSD

Cotton India	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Aug 2009		Market Year Begin: Aug 2010		Market Year Begin: Aug 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	10,310	0	11,160	0	12,500
Area Harvested	10,310	10,310	11,160	11,160	12,000	12,500
Beginning Stocks	8,919	8,919	6,399	5,999	5,349	5,149
Production	23,000	23,000	24,000	24,500	27,000	27,300
Imports	480	480	450	450	500	500
MY Imports from U.S.	0	193	0	100	0	150
Total Supply	32,399	32,399	30,849	30,949	32,849	32,949
Exports	6,550	6,550	5,000	5,100	4,800	5,600
Use	19,450	18,300	20,500	19,150	21,500	19,900
Loss	0	1,550	0	1,550	0	1,600
Total Dom. Cons.	19,450	19,850	20,500	20,700	21,500	21,500
Ending Stocks	6,399	5,999	5,349	5,149	6,549	5,849
Total Distribution	32,399	32,399	30,849	30,949	32,849	32,949

Note: 1. Area in thousand hectares, Other PSD numbers in thousand 480 lb.

2. Note: Production figures in the table include 937,000 bales of loose cotton.

Table 2: Month-End Prices of Popular Varieties (Rupees per Ton)

Year	Bengal Deshi	SG J-34	H-4	Shankar-6	MCU-5	DCH-32
	(below 22 mm)	(25 mm)	(28 mm)	(29 mm)	(33 mm)	(35 mm)
2009/10						,
Aug	66,925	63,832	62,426	64,957	68,050	93,077
Sept	65,801	59,614	60,739	62,989	66,644	92,514
Oct	68,613	62,145	61,583	66925	66,644	92,514
Nov	73,112	68,331	70,581	73,112	75,924	120,916
Dec	68,894	70,862	73,112	76,767	78,455	113,886
Jan	65,519	70,300	70,581	73,112	76,486	112,480
Feb	61,864	71,143	73,393	76,205	77,611	112,480
Mar	59,330	75,360	76,490	79,860	Na	116,700
Apr	61,300	76,490	75,920	77,890	Na	122,320
May	67,490	82,670	80,140	83,520	Na	119,510
Jun	66,360	80,980	80,140	83,520	Na	115,290
Jul	66,930	81,830	80,140	83,800	Na	116,700
2010/11						

Aug	75,080	91,950	92,800	96,170	102,640	122,320
Sept	77,330	99,830	102,640	106,010	115,290	127,950
Oct	78,740	107,700	116,700	118,670	122,320	140,600
Nov	85,770	107,700	112,480	118,100	120,920	140,600
Dec	98,140	117,540	118,670	120,920	123,730	149,040
Jan	119,790	129,910	135,540	137,230	147,630	210,900
Feb	138,910	161,690	157,470	163,100	174,340	233,400
Mar	149,040	175,750	167,880	172,940	182,780	233,400
Apr	133,850	140,600	123,730	143,410	168,720	210,900
May	120,020	119,510	112,480	129,350	149,040	191,220
Jun 24	123,730	101,230	98,420	106,860	134,980	182,780

Source: Cotton Association of India (Formerly East India Cotton Association), Mumbai.

Table 3: Cotton Consumption (Mills/Small Spinning Sectors) by Months

(Million US Bales)

Month\Year	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Aug	1.402	1.448	1.376	1.451	1.676
Sept	1.400	1.408	1.320	1.428	1.664
Oct	1.353	1.430	1.291	1.429	1.687
Nov	1.391	1.323	1.323	1.448	1.615
Dec	1.444	1.473	1.404	1.522	1.720
Jan	1.423	1.448	1.333	1.506	**1.652**
Feb	1.336	1.416	1.267	1.447	**1.548**
Mar	1.436	1.441	1.367	1.520	**1.612**
Apr	1.410	1.404	1.337	1.603	
May	1.397	1.480	1.392	1.634	
Jun	1.394	1.448	1.406	1.617	
Jul	1.438	1.444	1.482	1.723	
TOTAL	16.823	17.163	16.298	18.328	**13.173**

Note: Figures in bold are provisional estimates.

Source: The Textile Commissioner’s Office, Government of India (GOI).